

IN THE MATTER OF the *Ontario Energy Board Act 1998*,
Schedule B to the *Energy Competition Act*, 1998, S.O. 1998, c.15;

AND IN THE MATTER OF an Application by Horizon Utilities Corporation for an Order or Orders approving or fixing just and reasonable rates and other service charges for the distribution of electricity as of January 1, 2015.

**INTERROGATORIES DIRECTED TO THE CITY OF HAMILTON
FROM HORIZON UTILITIES CORPORATION**

Delivered August 15, 2014

CoH-Horizon-1

Preamble:

Section 2 of the WattsWorth evidence cites a Report of the Board “Rate Setting Parameters and Benchmarking under the Renewed Regulatory Framework for Ontario’s Electricity Distributors” (EB-2010-0379 which was released 21 November 2013 and updated 4 December 2013. Figure 3 excerpts Table 2: Two Factor Input Price Index from that report. The evidence comments on this Table stating that “It essentially prescribes a benchmark price index that indicates the effects of inflationary increases (non-labour as well as labour) that are reasonable for LDCs from 2003 through 2012, as per the OEB.”

Question:

- a) Please confirm that the Board’s intended use of the Two Factor Input Price Index is stated at page 11 of that report under the heading “2014 Inflation Factor Value” which states:

Consistent with the policy determinations set out in this Report, and the most recent Statistics Canada data available for GDP-IPI (FDD), the Board has calculated the value of the inflation factor for incentive rate setting under Price Cap IR and the Annual Index for rates effective in 2014 to be 1.7%. A detailed calculation is provided in Appendix C.

Reference: http://www.ontarioenergyboard.ca/oeb/ Documents/EB-2010-0379/EB-2010-0379_Report_of_the_Board_20131121.pdf

- b) Please confirm that that current Horizon Utilities Custom IR application does not rely on “the value of the inflation factor for incentive rate setting under Price Cap IR and the Annual Index”. Please explain if you do not confirm this statement.

CoH-Horizon-2

Preamble:

The WattsWorth evidence states at the end of section 2 that:

2. *An adjustment (increase) applied to the streetlight rate class in order to move its Revenue to Cost ratio closer to unity, despite the OEB's comments that the Revenue to Cost ratio range does not need to be narrowed. (emphasis added)*

Table 5 in the Horizon Utilities evidence (Exhibit 7, Tab 1, Schedule 2, page 4) shows that in the absence of rate rebalancing, all classes would have received the same percentage rate increase and the revenue-to-cost ratio for the SL class would decline from the 75.01 ratio that was approved for 2011 to 74.41 in this application. The revenue-to-cost ratio for the SL class is increased to 83.83 as a result of the rate rebalancing that is required to bring the revenue-to-cost ratios for the LU(1), LU(2) and USL classes within the relevant Board-approved ranges. For rate rebalancing all classes with revenue-to-cost ratios less than 100% received identical percentage adjustments to the proposed rate increases.

Question:

- a) Please explain the alternate approach that WattsWorth would recommend for rate rebalancing.
- b) Please comment on the extent to which the proposed alternate approach will ensure that the following guiding principles are respected:
 - The revenue-to-cost ranges for all classes are within the Board-approved ranges;
 - The rates are sufficient to enable Horizon Utilities to recover its revenue requirement in full;
 - No class has a rate rebalancing rate adjustment that moves the revenue-to-cost ratio for the class further way from 100%; and
 - Treats all classes equitably in terms of the rate rebalancing rate adjustment.
- c) If WattsWorth does not agree with the guiding principles set out in part (b) above, please explain that alternate guidance principles that WattsWorth would recommend using when rate rebalancing to bring revenue-to-cost ratios within the Board-approved ranges.

CoH-Horizon-3

Preamble:

Figure 16 in the WattsWorth evidence presents the SL Revenue Contribution: SL Load Contribution for Horizon Utilities and 8 other distributors that it considers comparable.

Question:

Please provide a graph showing the SL Revenue Contribution: SL Load Contribution ratios on the vertical axis with the nine distributors on the horizontal axis in ascending order of their SL Revenue Contribution: SL Load Contribution ratios.

CoH-Horizon-4

Preamble:

Figure 17 in the WattsWorth evidence presents the SL Revenue per Number of Devices for Horizon Utilities and 8 other distributors that it considers comparable.

Question:

Please provide a modified version of this figure with an additional line showing the SL Revenue per Number of Connections for the nine distributors.

CoH-Horizon-5

- a) Please provide a copy of the retainer, terms of reference, and any instructions provided to WattsWorth Analysis Inc.
- b) Please provide the previous drafts of the report.

CoH-Horizon-6

Preamble:

Figure 14 compares the Revenue Requirement contribution per rate class as a percentage between 2011 and 2015.

Question:

- a) Please identify the percentage of 2011 revenue requirement that the SL class contributed.
- b) Please identify the percentage of 2015 revenue requirement that it is proposed that the SL class contribute.
- c) Please compute the difference between 2015 and 2011.

CoH-Horizon-7

Preamble:

Figure 11 and 12 provide a comparison of the Residential Class distribution charges to the Street Light distribution charges showing that:

- The proposed 2015 rates have a higher distribution rate increase for the Street Light class than the residential class; and
- The distribution charge component of the total bill is higher for the street light class than the residential class.

Question:

Is the City of Hamilton of the view that the residential class distribution rates should be increased so that the distribution rates for the City of Hamilton may be decreased?

CoH-Horizon-8

Preamble:

Figure 1 provides the actual annual billing for the City of Hamilton for the years 2005 – 2013, and the proposed annual billing amounts for the years 2014 – 2019. The comment on this figure in the WattsWorth report states:

According to Figure 1, Hamilton's distribution-based billing amount from the streetlight class that is projected for 2019, based on HUC's Custom IR, is approximately 15 times higher than it was in 2005 – an increase of > 1400%.

Page 28 of the Ontario Energy Board's Decision with Reasons from EB-2007-0697 dated October 3, 2008 provides the following table:

Revenue to Cost Ratios

Rate Class	Cost Allocation Study Col 1	Application Col 2	Target Range Col 3
Residential	123.6	112.4	85 – 115
GS < 50 kW	92.0	92.5	80 – 120
GS > 50 kW	72.1	86.3	80 – 180
Large Use > 5 MW	49.8	92.1	85 – 115
Street Light	15.6	23.8	70 – 120
Sentinel	34.8	91.5	70 – 120
USL	34.2	88.1	80 – 120
Back-up/Standby	51.0	65.8	n/a

And states that:

The Board concludes that the Streetlighting class should be moved closer to the Board target range. This is consistent with other recent Board decisions on this issue. The revenue to cost ratio will be 43% for Streetlighting in 2008. The Board notes that Horizon did not object to this approach. The Board further directs Horizon to move the ratio to 70% as part of its 2009 IRM application.

Reference: http://www.ontarioenergyboard.ca/oeb/Documents/EB-2007-0697/dec_reasons_HorizonUtilities_20081003%20%283%29.pdf

Question:

Please confirm that the billing amounts in Figure 1 for 2005 - 2008 are based on revenue to cost ratios: 15.6% for 2007 and prior, and 43% for 2008, all of which are well below the Board's existing floor for the Street Lighting class of 70%.

CoH-Horizon-9

Preamble:

The WattsWorth Report states:

If the 2015 Revenue to Cost ratio was maintained for 2019, the total revenue that Horizon will require to collect from the streetlight class will go from approximately \$3.2M to \$2.9M, a 10% difference.

Table 7-6 of Horizon Utilities' prefiled evidence provided the proposed Revenue to Cost Ratios for each rate class for the years 2015 – 2019

Table 7-6: Chapter 2 Filing Requirement Appendix 2P (D) – Proposed Revenue-to-Cost Ratios - 2015

Class	Proposed Revenue-to-Cost Ratios					Policy Range
	2015	2016	2017	2018	2019	
	%	%	%	%	%	
Residential	103.23	104.03	103.77	104.96	103.86	85 - 115
GS < 50 kW	99.49	98.99	99.12	100.95	98.71	80 - 120
GS > 50 kW	94.14	93.34	94.23	90.11	94.34	80 - 120
Large Use (1)	115.00	112.17	111.03	109.45	108.05	85 - 115
Large Use (2)	115.00	85.00	85.00	91.39	96.86	85 - 115
Street Lighting	83.83	82.74	83.56	83.48	83.34	70 - 120
Seninel Lighting	94.29	96.55	95.19	94.80	93.98	80 - 120
Unmetered Scattered Load (USL)	120.00	119.90	119.30	120.00	120.00	80 - 120
Standby	54.44	53.43	52.64	52.29	51.92	Undefined

Question:

Please provide the calculation that shows how maintaining the Revenue to Cost ratio of 83.83% for the 2015 Test Year for each of the subsequent years (2016-2019) has a 10% impact on the Revenue Requirement to be recovered from the Street Lighting class in 2019.